Committee on Resources
Subcommittee on Energy & Mineral Resources

Witness Statement

TESTIMONY
OF
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Introduction

The issues examined in the attached study relate to the impacts of proposed changes in U.S. mining laws and public lands regulations on Nevada's economy. This research has been prompted by concerns about the potential economic impacts in Nevada of proposed changes to federal surface mining regulations (43 CFR § 3809, or "3809 regulations"). As a practical matter, however, these regulatory changes cannot be viewed in isolation, but as the latest of a sequence of events over the past decade that have adversely impacted the competitiveness of Nevada and other western public lands states. My testimony here today will present a brief overview of the results of our analysis. (1)

Results of surveys of major North American precious metals producers over the past decade indicate a substantial reduction in the U.S. share of investment in exploration efforts during the past five years. Since the analysis is based on the U.S. share of exploration expenditures, this decline cannot be blamed on commodity prices and, indeed, the data show that the U.S. share has declined and remained at lower levels even during periods when gold prices increased. Consequently, the reduction in the U.S. share of investment must be attributed to other factors influencing industry investment decisions. These other factors include those that decrease the attractiveness of the U.S. relative to other exploration and mine development targets, and are generally related to political risks.

The analysis below suggests that, as a result of the deterioration in the U.S. mining business environment because of increased political risks, the U.S. is already losing over $250 million per year without considering any marginal changes in the business environment that may result from modifications of 3809 regulations. The net present discounted value of this loss alone (for 10 years discounted at 3 percent) is $2.2 billion throughout the western public lands states and approximately $1.5 billion in Nevada alone. It should be further noted that these figures represent direct investment and do not include indirect impacts on state and regional output, employment, and household income. Hence, the economic cost to individuals and state

and local governments in terms of lost jobs, incomes, and tax revenues, has already been substantial. Proposed changes in 3809 regulations, in this context, simply promise to make these losses permanent.

The discussion and analysis below also focuses on the role of Nevada's mining industry in the state's economy. Although the industry is small in terms of employment with under 14,000 employees, it is the State's second largest export industry. As a consequence, the health of the industry is critical to economic activity in the state in general and particularly for the north central and eastern parts of the state where the industry is centered. The analysis below focuses both on statewide and regional impacts of changes in the business environment for mining companies.

Overall, defenders of proposed regulatory changes and other actions that have impacted the business environment in which mining companies operate have blamed low precious metals prices for the industry's problems. Low commodity prices have an obvious impact on any commodity producing industry. However, it is necessary to get beyond the obvious and take a closer look at the data. In this case, the data suggest a very different explanation of the current state of the minerals industry in Nevada and other western public lands states.

Nevada's Mining Industry

Nevada's mining industry produces a variety of minerals but it is the nation's leading producer of precious metals, producing approximately 70 percent of U.S. gold and 43 percent of U.S. silver. In 1997 this output was valued at $2.7 billion and generated economic impacts of increasing Gross State Product by $4.9 billion, inducing a total of 51,700 jobs, and added $1.5 billion to Nevadans' personal incomes. Overall, precious metal mining in Nevada and its indirect economic impacts accounted for 9 percent of Gross State Product in 1997. (2)

Precious metal mining's economic significance in Nevada is much greater in rural parts of the State where mining activities are centered. For example, Elko, Eureka, and Lander counties, in the northeast corner of the state, produced 5.6 million ounces of gold in 1998, or about 68 percent of Nevada production. During much of the 1990's precious metals production has accounted for almost one third of total employment and over half of personal income in these counties. Similarly, in Humboldt and Pershing counties in north central Nevada, 1998 gold output in the two counties totaled over 1.5 million ounces (19 percent of total state production) and mining and mine development has also accounted for over one third of total employment and almost one half of total personal income in these counties.

Similarly, and because of these counties' dependence upon the mining industry, these regions' local governments are also highly dependent upon mining. In the Elko, Eureka and Lander county region, total direct mining taxes which includes Net Proceeds of Mines taxes, sales and use taxes and ad valorem property taxes paid directly by mines account for 39 percent of all county revenues from these sources. In the Humboldt and Pershing county region, almost 50 percent of all county revenues from these sources come directly from mining companies. And, as if this degree of dependence of local government finances upon mining is not alarming enough under present circumstances, the figures above do not include sales and use and property taxes paid by mine employees and employees of businesses dependent upon mining. Consequently, the health of the precious metals industry and the mining industry in general is critical to the economic health of this region of the state and the thousands of people who live there.

Impacts of Mining Law and Regulatory Reform

Attempts to reform U.S. mining laws by environmental groups have been underway for the past decade. In the late 1980's, Representative Rahall in the U.S. House of Representatives and Senator Bumpers in the U.S. Senate introduced bills that would have, among other things, imposed royalties and restricted access to public lands for mineral entry.

Having generally failed in these efforts in Congress, the Clinton administration's Department of the Interior has more recently been attempting to achieve through reform of 43 CFR § 3809 surface mining regulations some of the measures that Congress has expressly refused to pass. However, as noted, regulatory reform should not be viewed in isolation but in the context of a string of events over the past decade that have adversely impacted the industry. We would suggest that the events or factors impacting the industry increasing the political risks of operating in the U.S. have included:

- Threats of production royalties in federal legislation noted above,
- A moratorium on the issuance of patents on mining lands,
- The imposition of a $100 per year per claim holding fee which raises the cost of holding land for exploration purposes and which resulted in the abandonment of a very significant percentage of mining claims in the U.S.,
- Threats of elimination of the percentage depletion allowance on U.S. mining lands acquired under the provisions of the "Mining Law of 1872" while keeping it for foreign production,
- Increasing delays in approving permits for mine development under existing 3809 regulations,
- Threats of increased delays in approving permits for exploration as well as mine development under proposed changes to 3809 regulations,
- Threats of up to 38 percent increases in the costs of exploration, according to the BLM's 3809 DEIS.

Generally, the proposed changes in the 3809 regulations would bring about certain proposed changes in the mining laws (except the royalty provisions) that have been rejected by Congress. The BLM's Draft Environmental Impact Statement[(3)] (DEIS) prepared on the proposed regulatory changes states that one of the impacts of its Proposed Action will be to reduce mining activity by 5 percent. There is no apparent justification for this estimate provided by the BLM and it has been widely criticized.

We believe the impacts of the Proposed Action need to be viewed in the longer term and broader context including what has occurred since the current administration began its efforts in 1993. This period is critical to understanding the impacts of the administration's Proposed Action because, as noted above, it pursues the objectives of a failed legislative agenda.

The Influence of Low Gold Prices

We also believe it necessary to distinguish between the impacts of mining law and regulatory reform and the impacts of low gold prices. The latter, it has been claimed by some proponents of the reforms, are to be entirely blamed for the reduction in exploration activity on public lands in Nevada and the rest of the western U.S. Figures 1 and 2 suggest otherwise.

Figure 1 shows the percentage share of major North American precious metals producers' exploration spent in the U.S. from 1992 to 1998.(4) As the figure indicates, in 1992 and 1993, over half of exploration spending by North American producers was spent in the U.S. and much of that in Nevada. This situation, however, changed radically after 1994. After 1994, the U.S. share of these companies' exploration budgets shrank to half of the 1992 and 1993 levels.

Since Figure 1 shows the U.S. percentage share of exploration spending, the price of gold is irrelevant to the discussion. While it is true that mineral company exploration budgets shrink when commodity prices fall, Figure 1 indicates that because of other factors, the U.S. share of these expenditures, regardless of their level, has been halved.

If the above is not sufficient to dispel the notion that the U.S. precious metals industry's current problems are solely due to low gold prices, then Figure 1 should be considered with Figure 2, which shows annual average gold prices over the same period. The figures indicate that the U.S. share of exploration expenditures by North American precious metals producers (Figure 1) declined when gold prices (Figure 2) were **increasing** during 1993 and 1994.

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Figures 1 and 2 are not included in this version

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Since 1992, annual average gold prices have fallen from $344 to $294 in 1998, or 14.5 percent. Over the same period, the U.S. share of North American producers' exploration budgets has fallen 49.7 percent. Low gold prices are clearly a problem for the industry, but it is equally clear that they are not the reason that the industry has turned its focus outside of the U.S. and Nevada.

It should also be pointed out that the flight of North American mining industry capital from the U.S. and Nevada is not, as it has been argued by some, because the industry has succeeded in finding all of the precious metals deposits. For practical reasons, precious metals exploration focuses on areas of the world where current production occurs. Nevada's production relative to its area is higher than, or comparable to, that of other major producing areas in the world making it a prime exploration target on geological grounds.(5)

Conclusion

The foregoing analyses suggest that the mining exploration and development investment climate in Nevada has deteriorated significantly since the early 1990's. As a result, the U.S. share of North American precious metals producers' exploration and development expenditures has fallen to approximately one half their 1992 levels. In addition, because this conclusion is based on the U.S. share of these expenditures and not their absolute levels, it dispels the argument that the current slowdown in exploration and development is purely a function of current low prices. Clearly, low commodity prices have hurt the industry in Nevada and other parts of the world, but most available information suggests that an increase in the political risks of doing business in Nevada and other public lands states relative to other places in the world has had a very significant impact.

The analysis above suggests that this increase in political risk, measured in terms of lost share of exploration

and development expenditures, may cost the U.S. as much as $254 million and Nevada as much as $178 million per year under current market conditions. It should be also noted that these figures only reflect lost direct expenditures and do not include indirect economic impacts on regional and state output, employment and household earnings. For Nevada, including indirect impacts would put the total annual cost of increased political risks at 3,380 fewer jobs, $317 million lower state product, and $98 million lower household income.

Finally, the analysis highlights the degree to which the gold producing regions of the State are vulnerable to these political risks. During much of the 1990's precious metals production have accounted for almost one third of total employment and over half of personal income in Elko, Eureka and Lander counties. Similarly, in Humboldt and Pershing counties in north central Nevada, mining and mine development has also accounted for over one third of total employment and almost one half of total personal income in these counties.

As a consequence of this heavy reliance on the precious metals mining industry for an economic base, the analysis above also highlighted the vulnerability of local government finances in these regions. With mining directly paying almost 40 to 50 percent of all property and sales and use taxes generated in these regions, revenues available for schools, social services, and other basic governmental services are also at risk.

One obvious conclusion that these findings support is that these regions need to diversify their economies. Other risks, such as the current lower price of gold, can also have dire consequences for these regions. While clearly the case, the desirability of economic diversification is beside the point of the current analysis. The political risks that have already taken their toll on these regions are avoidable and largely unnecessary while the consequences of changes in the prices of commodities sold on world markets are matters that are beyond the control of the U.S. Congress and the administration.

Congress and the administration, however, can and do influence the perceived political risks of all natural resource development on western public lands. Unfortunately, the available evidence suggests that over most of the past decade, this influence has been negative. As noted above, the proposed changes in 3809 surface management regulations would attempt to achieve by regulation some of the proposals that Congress has previously rejected, specifically, legislation proposed to restrict mineral entry on federally owned lands. The proposed regulatory changes, of course, do not address royalty issues in previous proposed legislation, but the threat of a royalty remains. The foregoing analysis suggests that if a royalty were adopted on top of the proposed regulatory changes, the consequence would be that very few, if any, new mines would be developed in the Nevada in the future.

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1. John L. Dobra and Thomas R. Harris, "Economic Impacts of Proposed Changes in U.S. Mining Laws and Public Lands Regulations on Nevada," Natural Resources Industry Institute, University of Nevada, Reno, June 1999.

2. John L. Dobra, *The U.S. Gold Industry, 1998*, Nevada Bureau of Mines and Geology, Special Publication 25, Mackay School of Mines, University of Nevada, Reno, 1999.

3. Bureau of Land Management, U.S. Department of the Interior, *Surface Management Regulations for Locatable Mineral Operations (43 CFR § 3809), Draft Environmental Impact Statement*. Washington, D.C., February 1999.

4. The figure is based on data collected in three surveys of major North American precious metals producers with U.S. production for studies of the U.S. gold industry by John L. Dobra. The studies were published by the Nevada Bureau of Mines and Geology, Mackay School of Mines, University of Nevada, Reno in 1995, 1997 and 1999. Although the number of companies responding to the survey varied from year to year because of factors like mergers and acquisitions, the respondents generally accounted for 85 to 95 percent of

U.S. domestic gold production.

5. Jonathan Price, in *The Nevada Mineral Industry 1997*, Nevada Bureau of Mines and Geology Special Publication MI-97, University of Nevada, Reno, 1998.

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